

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Energy Corporation)	
for Approval of a Transaction by which)	
Wisconsin Energy Corporation Would Acquire)	Docket No.:
All of the Outstanding Common Stock of)	
Integrus Energy Group, Inc.)	

**DIRECT TESTIMONY OF
SCOTT LAUBER IN SUPPORT OF APPLICATION
BY WISCONSIN ENERGY CORPORATION**

1 Q. Please state your name and business address.

2 A. Scott Lauber. My business address is 231 West Michigan Street, Milwaukee, Wisconsin
3 53203.

4 Q. By whom are you employed and in what capacity?

5 A. I am Vice President and Treasurer for Wisconsin Energy Corporation (“WEC”),
6 Wisconsin Electric Power Company and Wisconsin Gas LLC. I have held those
7 positions since February, 2013.

8 Q. Please describe your educational and professional background.

9 A. I have a Bachelors of Business Administration in Accounting from the University of
10 Wisconsin-Whitewater. I am also a Certified Public Accountant.

11 Prior to joining WEC, I worked as a staff auditor at Arthur Anderson. I have held
12 several roles in the 24 years since I joined WEC, most in the Finance and Accounting
13 Department. I was in charge of Corporate Accounting and Budgeting which included
14 external reporting; I was the Delivery Business Unit Controller; and most recently I held
15 the Assistant Treasurer position.

1 I am responsible for long-range financial planning, forecasting and managing the
2 utilities' revenue requirements, as well as oversight of WEC's treasury and cash
3 management functions. I have also been involved in all aspects of financial rate case
4 preparation, including evaluation of budgets, sales forecasting, and determination of
5 revenue deficiencies.

6 Q. On whose behalf are you testifying in this proceeding?

7 A. I am testifying on behalf of WEC.

8 Q. What is the purpose of your direct testimony?

9 A. WEC seeks Public Service Commission of Wisconsin approval for a transaction by which
10 WEC would acquire all of the outstanding common stock of Integrys Energy Group, Inc.
11 (the "Transaction") and approval of related affiliated interest agreements. The purpose of
12 my direct testimony is to provide background and an overview of the Transaction and to
13 describe the reasons for the Transaction from WEC's perspective. I will also touch upon
14 expected benefits of the Transaction for our customers and the public. WEC Witness
15 John Reed will go into more detail regarding the expected benefits of the Transaction.

16 I will also discuss the impact of the Transaction on WEC's and Integrys's
17 common stockholders. My testimony will discuss financial implications of the
18 Transaction and accounting and tax treatment of the Transaction.

19 Q. Are you sponsoring any exhibits?

20 A. Yes, I am sponsoring the following exhibits:

- 21 • Ex.-WEC-Lauber-1: The "Application of Wisconsin Energy
22 Corporation for Approval to Acquire the Stock of Integrys
23 Energy Group, Inc."

- Ex.-WEC-Lauber-2: The “Agreement and Plan of Merger between Integrys Energy Group, Inc. and Wisconsin Energy Corporation”; and
- Ex.-WEC-Lauber-3r: Corporate Structure of WEC Energy Group after closing.

I will also be filing two delayed exhibits: journal entries for WEC to record the Transaction; and a report of the results of the WEC and Integrys shareholder meetings after they are held in the Fall.

OVERVIEW OF THE TRANSACTION

Q. Please generally describe WEC and its corporate structure.

A. WEC is a holding company that has a number of wholly-owned subsidiaries. In fiscal 2013, WEC had operating revenues of approximately \$4.5 billion and net income of approximately \$577 million. WEC employed approximately 4,300 people in 2013.

WEC’s principal subsidiaries are Wisconsin Electric Power Company (“Wisconsin Electric”) and Wisconsin Gas LLC (“Wisconsin Gas”). Through Wisconsin Electric and Wisconsin Gas, WEC serves approximately 1.1 million electric and 1.1 million gas customers in Wisconsin and the Upper Peninsula of Michigan. WEC owns 6,021 MW of electric generating capacity, 45,597 miles of electric distribution lines, and 20,967 miles of gas transmission and distribution lines.

WEC’s predecessor companies have been in the energy business for over 100 years. The Milwaukee Electric Railway and Light Company was formed in 1896 to provide electric, steam and interurban rail service in a service area covering more than 12,000 square miles. In 1938, the company changed its name to Wisconsin Electric

1 Power Company, and over the years it has grown by investing in assets to serve its
2 customers and by acquiring smaller utility businesses, including Wisconsin Gas &
3 Electric (1941), Wisconsin Michigan Power Co. (1941), Wisconsin Southern Gas Co.
4 (1994), and ESELCO/Edison Sault Electric (1998).¹ In 2000, WEC acquired WICOR,
5 a Wisconsin public utility holding company, including WICOR's subsidiary Wisconsin
6 Gas.

7 Among the many awards for reliability and customer satisfaction the company has
8 received, in 2013 PA Consulting Group presented Wisconsin Electric with its
9 ReliabilityOne™ National Reliability Excellence Award recognizing the company as the
10 most reliable utility in America and its ReliabilityOne™ Award, for the ninth time in the
11 past 12 years, for leading the Midwest region in electric reliability performance.

12 Q. Please describe the proposed Transaction.

13 A. The Transaction value is approximately \$9.1 billion; \$5.8 billion of which will be for
14 Integrys shares and \$3.3 billion for assumed Integrys debt. Integrys shareholders will
15 receive 1.128 WEC shares plus \$18.58 in cash for each Integrys share. Total
16 consideration was valued on June 20, 2014 at \$71.47 per Integrys share, with a
17 consideration mix of 74% stock and 26% cash. This represents a 17.3% premium to
18 Integrys's closing price on June 20, 2014 and a 22.8% premium to the volume-weighted
19 average share price over the 30 trading days ending June 20, 2014.

20 WEC will finance the Transaction by issuing new WEC stock and approximately
21 \$1.5 billion in acquisition debt. This acquisition debt will likely take the form of
22 intermediate and long-term debt.

23 Q. What will the corporate structure of the company look like after the Transaction?

¹ In 2010, Edison Sault was sold to Michigan-based Cloverland Electric Cooperative.

1 A. Integrys will effectively become a subsidiary of WEC (which will be known after the
2 Transaction as “WEC Energy Group, Inc.”), just like Wisconsin Electric and Wisconsin
3 Gas are today. (For ease of reference, I will refer to the current holding companies as
4 “WEC” and “Integrys” and the post-acquisition combined holding company as “WEC
5 Energy Group.”) At closing, the current Integrys holding company will merge with a
6 holding company WEC will create, and Integrys will be the surviving company in that
7 merger. Integrys will then merge into a second subsidiary created by WEC, with the
8 second subsidiary surviving after that merger. The surviving entity, the “Subsequent
9 Merger Subsidiary,” will be a subsidiary of WEC Energy Group, Inc. This “Subsequent
10 Merger Subsidiary” will stand in the shoes of Integrys, and will maintain all of the
11 current Integrys utility subsidiaries under it, with the exception of Integrys Business
12 Support, LLC (“IBS”), which will be renamed and become a direct subsidiary of WEC
13 Energy Group. All current WEC subsidiaries will also continue to exist as subsidiaries of
14 WEC Energy Group, Inc.

15 Ex.-WEC-Lauber-3r depicts the post-closing structure of WEC Energy Group.

16 Q. Please briefly explain the business motivation for the Transaction.

17 A. WEC believes that the Transaction is in the long-run best interest of all of WEC’s
18 constituencies, including customers, employees, investors, and the public. It is important
19 to understand that the Transaction is *not* motivated by a desire to consolidate operations
20 and rapidly achieve large cost savings as a result of massive reductions in the work force.
21 Rather, the Transaction is motivated by -- and makes business sense because of -- the fact
22 that it will result in a combined company with strong cash flows that can be prudently
23 invested in needed energy infrastructure.

1 Also, WEC and Integrys complement one another. Their service territories have a
2 strong geographic fit and compatible mix of operations. Both companies provide natural
3 gas and electric distribution service and operate electric generating facilities.

4 The companies share a similar culture. Both companies are committed to safety,
5 reliability, and customer satisfaction. Finally, both companies have long traditions of
6 giving back to their communities through volunteerism and financial support.

7 Of course, the Transaction has to make sense from the perspective of all affected
8 constituencies. John Reed of Concentric Energy Advisors will discuss potential
9 customer, public and investor benefits in more detail, but I'd like to provide a high-level
10 overview of some of the benefits that are expected to result from the Transaction.

11 **BENEFITS OF THE TRANSACTION FOR CUSTOMERS**

12 Q. What benefits can customers expect from the Transaction?

13 A. Utility customers will be served by a larger, more diversified and financially stronger
14 energy company. This will benefit customers in a variety of ways. Among these will be
15 the opportunity to consider expanding the services offered by Integrys Business Support,
16 LLC ("IBS"), which is Integrys's current centralized services company. This will
17 eventually result -- following review and approval of appropriate affiliated interest
18 agreements -- in having IBS provide common services to Wisconsin Electric and
19 Wisconsin Gas in addition to the current Integrys utilities.

20 Another potential benefit is possible economies of scale in areas such as energy
21 efficiency, low income and conservation programs. Any such opportunities will only be
22 pursued to the extent they can be accomplished while maintaining WEC's and Integrys's
23 long-standing traditions of exemplary customer service.

1 A third potential benefit may be realized as a result of WEC Energy Group's
2 larger, more diversified generation fleet. While generation will continue to be dispatched
3 by MISO, resource planning made possible by WEC Energy Group's larger portfolio and
4 geographic footprint may make it possible to rationalize generation, thereby saving
5 money for customers.

6 Because the Transaction is not motivated by a desire to immediately -- or even in
7 the medium term -- significantly reduce employee headcount, customers should not
8 expect to see reductions in rates, at least in the short term. However, as efficiencies are
9 identified, they will be reflected in the utilities' cost of service and will flow through to
10 customers in rate cases (as will costs to achieve those efficiencies, which the Commission
11 has historically called "transition costs"). The costs to execute the Transaction --
12 bankers, lawyers, the cost of securing debt financing and the like, which the Commission
13 has historically labeled "transaction costs" -- will not be recovered from customers, but
14 rather will be paid by shareholders.

15 Q. How will the Transaction affect customers of Wisconsin Public Service Corporation
16 ("WPS")?

17 A. WPS customers will get all of the benefits I've just described, and will, of course,
18 participate in any cost savings that are identified. However, WPS customers will notice
19 very little -- if any -- change in their day-to-day interactions with WPS. WPS will remain
20 a separate company with operations in Green Bay. It will continue to provide adequate,
21 reliable, efficient and safe electric and gas service to its customers. There will be no
22 immediate impact on the rates WPS's customers pay, and the Transaction will have no
23 effect on WPS's pending rate case (6690-UR-123).

1 Moreover, WPS will maintain its historic commitment to the communities it
2 serves. WPS has a strong tradition of involvement in its communities, both financially
3 and through volunteerism. The company's civic, community and philanthropic efforts
4 will continue after the Transaction. It is in WEC's best interest to enhance the economic
5 prospects of the communities that it serves, and WPS will continue to have a strong local
6 presence.

7 Q. How will employees be affected by the Transaction?

8 A. Employees will become part of a company that is better equipped to compete and
9 maintain its independence in the rapidly changing energy business. All union contracts
10 will be honored. The vast majority of any workforce reductions resulting from the
11 Transaction are expected to occur through attrition. Over time this will inure to the
12 benefit of customers through reduced costs.

13 Q. You mentioned that affiliated interest agreements will be required to expand the services
14 currently offered by IBS. Please explain.

15 A. WEC Energy Group will ensure that there is no cross-subsidization between its various
16 regulated and non-regulated subsidiaries. WEC and its current subsidiaries currently
17 share services under a series of Commission-approved affiliated interest agreements.
18 Integrus and its current subsidiaries do the same by having IBS provide a number of
19 shared services to the holding company and all of the Integrus operating companies under
20 two affiliated interest agreements, one that applies to regulated utility companies and a
21 second that applies to the non-utility companies. Additionally, non-IBS Integrus
22 companies may also provide services to each other and to IBS under separate
23 Commission-approved affiliated interest agreements.

1 At or shortly after closing, IBS will become a direct subsidiary of WEC Energy
2 Group and will be renamed WEC Business Services, LLC (“WBS”). WEC expects that it
3 will eventually make sense to have WBS provide an increasing range of services to WEC
4 Energy Group and the post-acquisition subsidiaries. This transition will be accomplished
5 over time following careful consideration of the areas of the company for which such an
6 arrangement is in customers’ best interest. WEC currently anticipates that WBS will be
7 called upon to provide certain services to WEC Energy Group and its subsidiaries
8 immediately upon closing, including senior management services and perhaps legal,
9 accounting, human resources, finance and potentially other services. WEC expects that
10 members of the senior management team with overall responsibility for WEC Energy
11 Group and its subsidiaries, as well as other appropriate personnel, will become employees
12 of WBS immediately after closing, so that their costs can be appropriately allocated
13 across WEC Energy Group and the various subsidiaries. In addition, it may be in the best
14 interests of customers for WEC Energy Group’s subsidiaries to be able to provide
15 services to one another.

16 Q. How does WEC propose to formalize these arrangements?

17 A. By gaining Commission approval for the affiliated interest agreements that have been
18 proposed in this case, WEC and its subsidiaries would have the ability to begin taking
19 services from WBS immediately upon closing, but would not be required to do so. To
20 accomplish this goal, WEC proposes that at or shortly after closing, WEC and its current
21 subsidiaries will each execute affiliated interest agreements based on the Commission-
22 approved Master IBS Regulated Affiliated Interest Agreement and the Master IBS Non-
23 Regulated Affiliated Interest Agreement, as appropriate, except that the WEC entities

1 will not be required to take services from WBS. This will permit the WEC companies to
2 immediately begin receiving some services from WBS, while allowing a transition period
3 during which it can be determined which additional services it would be in the utility
4 customers' best interests for the WEC companies to receive from WBS. WEC seeks
5 Commission approval of these agreements, which are attached to the Application as
6 Appendix A.

7 In addition, WEC Energy Group and all of its subsidiaries (i.e., today's WEC and
8 Integrys subsidiaries) will execute an agreement substantially similar to the Commission-
9 approved Integrys Affiliated Interest Agreement, which will allow WEC companies to
10 provide services to Integrys companies and Integrys companies (other than IBS) to
11 provide services to WEC companies -- when it is in customers' best interest to do so -- all
12 pursuant to appropriate contractual requirements, allocation standards, and compliance
13 processes. The form of this agreement, for which WEC seeks Commission approval,
14 along with a redlined comparison to the existing Integrys agreement, is attached to the
15 Application as Appendix B.

16 Finally, the current WEC Master Affiliated Agreement will be terminated.

17 **BENEFITS TO THE PUBLIC OF THE TRANSACTION**

18 Q. Please describe how this Transaction is in the best interests of the public.

19 A. Integrys, WEC, Wisconsin Electric, Wisconsin Gas and WPS all have deep roots in
20 Wisconsin, and have traditionally made significant contributions to regional development
21 and to educational, cultural and charitable causes. The Transaction will ensure that those
22 deep Wisconsin roots are maintained. The headquarters and associated jobs will remain

1 in Wisconsin, and decisions concerning energy policy will continue to be made in
2 Wisconsin, subject to oversight by the Wisconsin Commission.

3 **BENEFITS OF THE TRANSACTION FOR INVESTORS**

4 Q. Do you believe the Transaction is in the best interest of investors?

5 A. Yes. The Transaction has already been unanimously approved by the directors of both
6 Integrys and WEC. Shareholders of WEC and Integrys will vote on the Transaction later
7 in the Fall of this year, thereby evaluating whether the Transaction is in their own best
8 interest. We believe shareholders will approve the Transaction because WEC Energy
9 Group will be a financially-stronger energy business that will be positioned to provide
10 enhanced earnings and growth.

11 From WEC's perspective, its financial resources are productively used investing
12 in needed utility infrastructure, including environmental retrofits, undergrounding of
13 lines, gas main replacements and investment in new technologies, all of which are
14 included in Integrys's five-year plan to invest \$3.5 billion in infrastructure and
15 operations. The larger company will enjoy increased liquidity and a strong combined
16 balance sheet and cash flows. Additionally, WEC Energy Group will serve a greater
17 number of customers, gaining size and greater geographic and earnings diversification
18 due to Integrys's operations in Wisconsin and other states. As a larger company, funds
19 invested in any given capital project will represent a smaller proportion of overall
20 company assets and capitalization. WEC Energy Group will gain a larger, experienced
21 workforce to share across its system. Finally, the Transaction will enhance WEC's
22 profile in the energy industry, thereby allowing it to attract and maintain a high quality

1 management team. All of these factors should make WEC Energy Group a more
2 attractive investment opportunity than either WEC or Integrys alone.

3 Q. How will these factors affect WEC's ability to attract capital at reasonable rates after the
4 Transaction?

5 A. I believe these factors will enhance WEC's ability to attract capital at reasonable cost.
6 As indicated above, the ability of WEC Energy Group to generate cash flow should be
7 enhanced while at the same time the underlying risk is reduced from what would
8 otherwise exist without the proposed acquisition.

9 Q. How will the merger affect external financing requirements?

10 A. WEC will finance approximately \$1.5 billion of the Transaction by issuing intermediate
11 and long-term debt. Over the long term, we expect improvement in internal cash
12 generation, which will make it possible to further reduce external financing requirements.
13 This will give WEC the flexibility to improve its capital structure at opportune moments
14 in the market by reducing its total cost of capital. Lower borrowing costs will improve
15 financial flexibility, which will, in the long term, improve the ability of the utility
16 subsidiaries to provide safe, reliable energy at a reasonable cost to customers.

17 Q. What was the response of the credit rating agencies to the Transaction announcement?

18 A. Moody's and S&P have evaluated the effect of the Transaction on credit quality and have
19 reaffirmed their current credit ratings for WEC, Integrys and the operating utilities. Fitch
20 reviewed the Transaction's effect on WEC only, and reaffirmed its rating for that
21 company. Mr. Reed's testimony provides greater detail about the credit rating agencies'
22 reactions to the Transaction. As Mr. Reed notes, the credit rating agencies agree the

1 Transaction provides long-term benefits through enhanced financial strength of the
2 combined company and geographical/operational diversification.

3 **REGULATORY APPROVALS REQUIRED FOR THE TRANSACTION**

4 Q. What regulatory approvals are required in order to complete the Transaction?

5 A. In addition to the Wisconsin Commission, the Transaction will be reviewed by several
6 regulatory bodies, including the Federal Energy Regulatory Commission (“FERC”); the
7 U.S. Department of Justice and the Federal Trade Commission for antitrust issues; the
8 Federal Communications Commission; the Illinois Commerce Commission; the Michigan
9 Public Service Commission; and the Minnesota Public Utilities Commission.

10 Q. Do the other state Commissions consider similar issues to Wisconsin -- i.e. whether the
11 Transaction is in the “best interests of utility consumers, investors and the public”?

12 A. Generally speaking, yes. Some states have a longer list of considerations, but they all can
13 be summarized by a focus on the three constituencies covered by the Wisconsin statute.

14 For example, the Illinois Commerce Commission will likely consider:

- 15 • WEC Energy Group’s subsidiaries’ ability to provide adequate,
16 reliable, efficient, safe and least-cost public utility service;
- 17 • whether the Transaction will result in unjustified subsidization
18 of non-utility activities by the subsidiaries or their customers;
- 19 • whether costs and facilities will be reasonably allocated
20 between utility and non-utility activities so that the
21 Commission can identify costs and facilities properly included
22 by the utility for ratemaking;

- whether there will be significant impairment of WEC Energy Group's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- whether WEC Energy Group and its Illinois subsidiaries will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois utilities;
- whether there will be any significant adverse effect on competition in markets over which the Illinois Commerce Commission has jurisdiction; and
- whether there will be adverse rate impacts on retail customers.

Q. What issues do you anticipate FERC will focus on during its review of the Transaction?

A. Generally speaking, FERC's focus will be on issues such as:

- the effect of the Transaction on wholesale competition;
- whether the Transaction could result in cross-subsidization of a non-utility company by a traditional utility company; and
- whether the Transaction could result in a pledge or encumbrance of utility assets for the benefit of a non-utility company.

We also anticipate that FERC will focus on the Transaction's effect on the governance of American Transmission Company LLC ("ATC"). WEC currently owns 26.24% of ATC and its corporate manager, ATC Management, Inc. ("Manager"), and Integrys currently owns 34.07%. Therefore, WEC Energy Group will own 60.31% of ATC and the

1 Manager's shares. On its face, having ATC be majority-owned by one holding company
2 could cause FERC concern.

3 WEC and Integrys value the independent and collaborative work ATC has done to
4 plan and manage the transmission network and do not desire to unduly influence the
5 management, planning and operation of ATC. Therefore, with certain exceptions,
6 WEC will commit that following the Transaction, for all matters requiring a vote of the
7 Manager's owners, WEC Energy Group will independently vote only 34.07% of the
8 Manager's shares (i.e. the equivalent of Integrys's current shares). The remainder of the
9 shares held by the combined company will be voted in proportion to the way in which the
10 Manager's owners who are unaffiliated with the combined company vote their shares.
11 Importantly, WEC Energy Group will commit not to use its full voting power to elect the
12 directors of the Manager, thereby eliminating any danger of the Manager being seen as
13 somehow "captive" to WEC Energy Group. Therefore, WEC Energy Group will have
14 the same influence on ATC's management, operations and planning that Integrys does
15 today, and control of ATC will be more distributed after the Transaction than it is today.

16 As for the exceptions I noted, WEC Energy Group will propose to FERC that it
17 retain its full voting power with respect to certain fundamental corporate matters,
18 including: (1) a sale of all or substantially all of the assets of ATC; (2) a change in
19 control of ATC or the Manager; (3) bankruptcy; (4) an initial public offering; (5) the
20 merger or consolidation of ATC with, or a proposal to acquire all or substantially all of
21 the assets of, another company; and (6) any proposal to amend ATC's or the Manager's
22 governing documents that would reduce WEC Energy Group's rights as a member or
23 shareholder. WEC Energy Group will not use its full ownership interest to initiate any of

1 these or similar actions, but will only act to protect and preserve its expanded economic
2 interest in ATC if any such actions are initiated by others.

3 **CONDITIONS OF APPROVAL**

4 Q. Is WEC offering at this time any conditions to which it would agree as part of the
5 regulatory approval process?

6 A. WEC has made five proposals which it would be reasonable for the Commission to
7 include, in an appropriate form, as conditions for approval of the Transaction:

- 8 • Neither the acquisition premium nor the costs of executing the
9 Transaction may be recovered from utility customers.
- 10 • WEC will ensure by appropriate means that WEC Energy
11 Group will vote its ATC ownership interest as described in the
12 Application.
- 13 • Upon receiving regulatory approval of the necessary affiliated
14 interest agreements, those agreements will be executed so the
15 WEC companies can receive services from WBS and so that
16 the WEC and Integrys companies can provide services to one
17 another where it is in customers' best interests to do so.
- 18 • For two years from the date of closing of the Transaction, any
19 reduction in headcount among employees in Wisconsin who
20 are represented by a labor union will occur only as the result of
21 voluntary attrition or retirement.
- 22 • Before filing for approval of any legal merger of utilities or
23 "levelization" of rates between the utilities, WEC will confer

1 with Commission Staff and affected parties and would only
2 propose such action when and if it can be shown to be in the
3 best interests of customers.

4 **ACCOUNTING AND TAX TREATMENT OF THE MERGER**

5 Q. What are the relevant accounting pronouncements for a business combination like the
6 Transaction?

7 A. In December 2007, the Financial Accounting Standards Board ("FASB") completed the
8 second phase of its business combinations project. The first phase, completed in 2001,
9 resulted in the issuance of Statements 141 and 142 and included such changes as the
10 elimination of the pooling-of-interest method of accounting. The second phase
11 constituted a major overhaul of the purchase accounting rules for business combinations.
12 The FASB issued two standards at the end of the second phase -- Statement 141 ('R)
13 (codified in Accounting Standards Codification "ASC" 805 -- "Business Combinations")
14 and Statement 160 (codified in ASC 810 -- "Consolidation").

15 Q. Please describe the applicable accounting method in more detail.

16 A. Under U.S. Generally Accepted Accounting Principles ("GAAP") there are three general
17 steps in accounting for an acquisition: (1) determining the controlling entity; (2)
18 determining the consideration that was given to obtain control -- i.e. the purchase price;
19 and (3); recognizing and measuring the assets acquired and the liabilities assumed on the
20 books of the acquiring company.

21 Here, WEC is the controlling entity as it is issuing stock and paying cash to
22 acquire all of Integrys's outstanding common shares.

1 As for the second step, Integrys shareholders will receive as consideration 1.128
2 shares of Wisconsin Energy common stock plus \$18.58 per share. In addition, Wisconsin
3 Energy will “cash-out” approximately \$140 million in stock-based compensation held by
4 Integrys employees and directors. Under GAAP, part of this payment will be allocated to
5 the purchase price based upon vesting and service and part of the payment will be
6 expensed subsequent to the financial closing. The total purchase price is approximately
7 \$5.8 billion based on the share price of Wisconsin Energy’s common stock as of
8 June 20, 2014. The final purchase price will be based upon the fair value of Wisconsin
9 Energy common stock as of the closing date.

10 As for the third step, under GAAP, assets acquired and liabilities assumed in a
11 business combination must be recorded on the books of the acquiring company at “fair
12 value.” This can be a long and expensive process involving extensive appraisals of long-
13 lived tangible and intangible assets. However, in the regulated utility industry, it is
14 common to assert that the fair value of utility property is the amount that is allowed in
15 setting rates. For rate-setting purposes, utility property is valued at its historical cost, less
16 accumulated depreciation. This is the approach WEC will take.

17 Q. How will the Transaction be treated for tax purposes?

18 A. The transaction will be accounted for as a reorganization under Section 368(a)(2)(D) of
19 the tax code.

20 **HISTORICAL AND PROFORMA FINANCIAL INFORMATION**

21 Q. Will you be filing historical and pro forma financial statements reflecting the impact of
22 the Transaction?

1 A. Yes. Those financial statements are being finalized, and will be filed with the
2 Commission when they are available.

3 Q. Please describe the estimated transaction costs for the Transaction and related accounting
4 treatment.

5 A. We estimate that the Transaction costs (e.g., the lawyers' and bankers' fees, the cost of
6 obtaining debt financing, etc.) will total approximately \$68.5 million. We will not seek
7 to recover these costs from ratepayers, and will not seek to amortize them. These costs
8 will be covered by WEC Energy Group shareholders.

9 Q. Does this conclude your testimony?

10 A. Yes.